FOR OFFICIAL USE ONLY

Japan: World's Largest Shipping Industry Faces Growing Problems

FOR OFFICIAL USE ONLY

ER RP 75-30
November 1975

Copy № 35

JAPAN: WORLD'S LARGEST SHIPPING INDUSTRY FACES GROWING PROBLEMS

SUMMARY

1. Japan, in the '70s, has become the world's leader in seaborne trade. Heavily dependent on imports of raw materials, and having an active policy to maximize the carriage of its seaborne trade by its own ships, Tokyo has fostered the rapid development of the Japanese fleet. Although Japan maintains the world's largest nationally owned fleet, its share of world shipping is being eroded, particularly in liner trades.

2. The current slowdown in world trade has added to Tokyo's problems, although Japan has not suffered as much as other maritime nations. About 2% of Japanese-flag ships have been idled, compared with about 8% of the world fleet Nonetheless, Japan's shipping profits have plummeted from last year's record high, and the entire industry is trimming costs while appealing to Tokyo for counterrecession measures. The Ministry of Transport already has revealed a ship disposal plan to be initiated next spring and additional aid seems likely.

3. Foreign-flag ships will continue to expand their share of Japan's trade. Japan's merchant fleet will retain, into the next decade, however, its preeminent position among the fleets of the world, and its major shipping companies are likely to become fewer and stronger.

DISCUSSION

Seaborne Trade

4. Japan, almost exclusively dependent on overseas sources of raw materials, is the world's leader in seaborne trade (see Figure 1). Seaborne trade reached a record 676 million metric tons in 1974[1] – more than 20% of the world total – of which nearly 612 million tons were imports and 64 million tons were exports (see Table 1).In 1974, record volumes of petroleum (5.2 million b/d), iron ore

1. Calendar year.

Note: Comments and queries regarding this publication are welcomed. They may

Figure 1

Japan: Selected Imports as a Share of Consumption, 1974

	Thousand metric tons	Percent of total
Lumber	2,381	58%
Copper	3,140	74%
Coal	63,988	77%
Feed corn	7,958	83%
Barley and wheat	6,794	92%
Soybeans	3,240	96%
Iron ore	141,953	99%
Aluminum	479	100%
Crude oil	237,942	100%
Nickel	21	100%
Phosphate ore	3,846	100%

567690 10-75

(142 million tons), and coal (64 million tons) were imported. These imports accounted for nearly 16% of world oil trade and about two-thirds of international iron ore and coal shipments.

Maritime Policy and the Growth of Shipping

5. Tokyo historically has promoted a maritime policy to minimize its dependence on foreign ships and to earn additional foreign exchange.

Table 1

Japan: Share of World Trade

	1969	1970	1971	1972	1973	1974
World seaborne trade (million metric tons)	2,312	2,605	2,699	2,866	3,190	3,200(est.)
Japanese seaborne trade (million metric tons)	425	508	539	562	652	676
Japanese share of world seaborne trade tonnage (percent)	18.4	19.5	20.0	19.6	20.4	21.1
Value of world seaborne trade (billion US $)	271.5	311.4	345.3	415.7	574.4	847.6
Value of Japanese share of world seaborne trade (billion US $)	16.0	19.3	24.1	28.6	36.9	55.5
Value of Japanese share of world seaborne trade (percent)	5.9	6.2	7.0	6.9	6.4	6.5

6. Under this program, Tokyo has extended long-term loans for new ship construction, provided a number of tax incentives to shipbuilders and ship operators, and granted interest differential subsidies to close the gap between rates extended by the Development Bank of Japan and those charged by commercial banks. In 1973, assistance to the maritime industry reached nearly $800 million. Almost 27 million deadweight tons (DWT) of the 41 million tons built for Japanese owners during the recent six-year (1969-74) fleet expansion program have been built with such assistance. The interest differential subsidy program – $3 billion in payments since 1964 – was discontinued in March 1975, however, as the gap between interest rates in Japan and other major shipping nations closed and earnings of Japanese shipping companies were considered sufficient to finance expansion internally.

7. In 1964, Tokyo sanctioned the amalgamation of nearly 100 companies into the Big Six (Nippon Yusen Kaisha, Mitsui OSK Lines, Kawasaki Kisen, Yamashita Shinnihon Kisen, Japan Lines, and Showa Kaiun) to reduce competition and multiplication of services. Tokyo obtained company cooperation by offering various forms of financial assistance; most important were moratoriums on interest charges for outstanding loans and aid for new ship construction. The Big Six – together with their 63 affiliates – own 80% of Japan's merchant tonnage.

8. The recent downturn in world demand for shipping has sparked renewed interest in government assistance. Japanese shipowners are facing a sharp drop in profits, and contract cancellations and a dearth of new orders threaten shipbuilders with serious idle capacity. Both groups have appealed to Tokyo for tax relief, new subsidies, and other aid, which the government is likely to grant.

The Merchant Fleet

9. Tokyo's active maritime policy has given Japan the world's largest merchant fleet under the flag and ownership of one nation.[2] The fleet totaled 60 million DWT at the end of 1974, 12% of the world merchant fleet and a sharp increase from the 9.4 million DWT fleet in 1960 (see Table 2). One-half of the

Table 2

Japan: Growth of the Merchant Fleet[1]

Million Deadweight Tons

Type of Ship	1960	1965	1968	1970	1971	1972	1973	1974
Total	9.4	16.7	29.2	39.1	44.9	52.3	57.3	60.2
Tanker	2.4	7.0	11.8	16.0	19.3	23.2	27.7	30.7
Bulk carrier	0.7	2.9	8.8	13.2	15.9	19.4	21.0	21.2
General cargo and container	6.1	6.3	8.2	9.5	9.3	9.2	8.2	8.2
Other	0.2	0.5	0.4	0.4	0.4	0.5	0.4	0.1

1. Yearend.

2. The Japanese fleet is overshadowed in tonnage terms by Liberia's flag of convenience fleet, which totaled 112 million DWT at the end of 1974. However, Japan's fleet is a truly national fleet under the control of Japanese shipping companies, while Liberian-flag vessels are owned by a number of different sources and are registered there for a variety of tax and cost purposes.

fleet consists of tankers (most of which are larger than 100,000 DWT), 35% are bulk carriers, and general cargo freighters, including container ships, make up the remainder (see Table 3).

10. The Japanese fleet is one of the most modern in the world. Nearly 90% of the ships are less than 10 years old, compared with about 60% of the world fleet. Less than 1% are 25 years old, compared with 48% for the US fleet and 6% for the world fleet. Japan, along with the United States and leading European maritime nations, has pioneered in the automation of ship operations. Nearly 300 Japanese ships -- mostly tankers -- now have unmanned engine rooms and use computers for navigation.

Chronic Problems

11. Rising crew costs have been a major factor in Japan's declining competitiveness. Seamen's wages, which represent 60% of Japanese operating costs, increased 45% over the past two years and now rank second only to American maritime wages. This cost pinch is greatest on small- and medium-size ships engaged primarily on relatively short hauls, the so-called "near-sea trades." The share of cargo for Japanese-flag trampers and liners in these trades has declined rapidly for several years.

12. Rising costs of Japanese crews have made charters of foreign ships more attractive. Whereas the ratio of owned to chartered ships in the Japanese fleet controlled by the Big Six was 60 to 40 in 1970, the ratio was reversed by 1974 to take advantage of lower operating costs enjoyed on foreign flag charters. Since Japanese-owned ships built under government subsidies are prohibited from operating under foreign flags, Japanese owners often sell ships abroad under charterback agreements. Another chartering practice is to arrange construction of ships at Japanese yards for foreign owners and with foreign financing, but to the specifications of Japanese operators who will eventually charter the new ships for 10 or more years. Such arrangements account for nearly one-fourth of Japan's charters.

13. Competition from other developed maritime nations is a persistent problem, stemming mainly from the improved efficiency of foreign liner services through the introduction of container ships, which Japan was slower in adopting. As Japan expanded its container fleet, foreign shipowners continued their expansion, particularly on the lucrative North Pacific route, and excess capacity

Table 3

Composition of Major World Fleets
December 1974

	Total[1]	Tankers		Combination Bulk/ Oil Carriers		Dry Bulk Carriers		General Cargo		Container Ships		Other	
	Million Dead-weight Tons	Million Dead-weight Tons	Percent of Total Fleet	Million Dead-weight Tons	Percent of Total Fleet	Million Dead-weight Tons	Percent of Total Fleet	Million Dead-weight Tons	Percent of Total Fleet	Million Dead-weight Tons	Percent of Total Fleet	Million Dead-weight Tons	Percent of Total Fleet
Liberia	112.1	73.8	65.8	10.9	9.7	21.7	19.4	4.6	4.1	0.3	0.3	0.8	0.7
Japan	60.2	30.7	51.0	5.7	9.5	15.5	25.7	7.3	12.1	0.9	1.5	0.1	0.2
Great Britain	53.0	31.5	59.4	5.1	9.6	8.6	16.2	5.8	10.9	1.3	2.5	0.7	1.3
Norway	43.3	24.5	56.6	7.0	16.2	9.0	20.8	2.2	5.1	....	...	0.6	1.4
Greece	36.7	14.3	39.0	2.2	6.0	10.9	29.7	8.7	23.7	0.1	0.3	0.5	1.4
USSR	17.3	5.5	31.8	0.9	5.2	0.5	2.9	8.5	49.1	0.2	1.2	1.7	[illegible]
United States[1]	14.4	8.9	61.8	0.2	1.4	0.3	2.1	1.8	12.5	1.8	12.5	1.4	9.7

1. Total excludes government-owned ships.

Approved For Release 2005/06/13 : CIA-RDP86T00608R000500230029-2

grew, pushing load factors on Japanese container ships closer to unprofitable levels.[3] Foreign competition in liner service has particularly concerned Japan because liner operations account for about one-fourth of Tokyo's maritime earnings.

14. LDC efforts to expand their national fleets and gain a larger share of their own seaborne carriage pose another problem for Japan. In certain trades the LDCs have been undercutting Japanese rates for some time. LDC moves toward cargo preference legislation under the umbrella of the United Nations Code of Conduct for Liner Conferences will compound the competition facing Japan. Such legislation generally provides that at least 40% of trade be carried on a country's own ships, leaving 40% for the trading partner and 20% for third-flag ships. Tokyo has not opposed the Code, since it feels it is so vague that a variety of interpretations are possible and that it reflects an inevitable trend among the LDCs. Tokyo also believes that it can negotiate bilateral agreements with many LDCs to reduce the impact of cargo preference legislation. Nevertheless, such legislation threatens to reduce the share of LDC trade carried on Japanese ships.

15. International monetary fluctuations are also affecting the Japanese shipping industry. Because most of Japan's international contracts are denominated in dollars, both shipbuilders and shipowners have been hurt by the yen's depreciation since 1971. At the same time, expenditures, denominated in yen, have been sharply increased by domestic inflation.

16. Foreign ships have steadily increased their share of Japan's rapidly growing trade, from 53% in 1969 to 61% in 1974. This has been a major factor in Tokyo's widening shipping deficit, which reached a record $2.1 billion in 1974 -- up from $1.4 billion in 1973 (see Figure 2). Shipping with the United States and Western Europe accounted for the deficit, while a positive balance was maintained with the LDCs because Japanese shipping companies handled much of the latter's trade with Japan. LDC moves to develop their own national fleets, however, will tend to reduce this surplus.

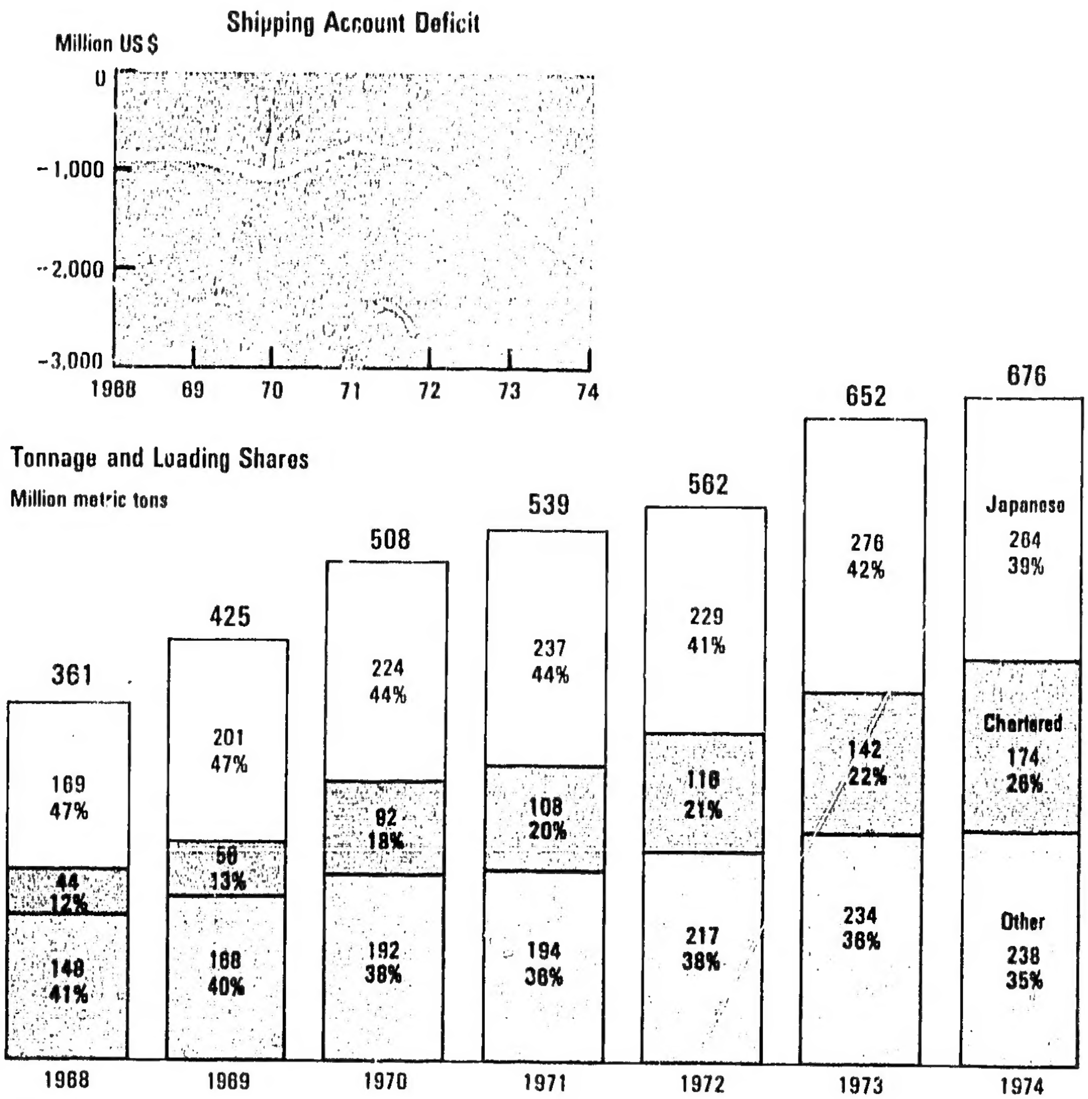
Japanese Shipping and the Current World Recession

17. The structure of Japanese shipping controls and the persistent raw material needs of the Japanese economy have been crucial in cushioning the impact

3. On the North American routes, there are more than 130 container ships in addition to Japan's 25 ships, and there are plans to add another 30 non-Japanese ships. Additional pressure in the Far East is coming from the Soviet Union, which is bringing a number of container ships on line in 1975. The Soviets already have cut into Far East liner services by undercutting conference rates in the area.

Figure 2

Japanese Foreign Trade: Shipping Account Deficit, Tonnage, and Loading Shares



567681 10-75

of the economic slowdown on the Japanese maritime industry. Most of Japan's fleet remains operative; only about 1.2 million DWT -- about 2% of the fleet -- has been idled, compared with about 8% of the world fleet.

18. The Japanese fleet is little involved in cross-trading – trade between two foreign countries – and is therefore not as vulnerable to the current slowdown

in world trade as are nations such as Norway, Denmark, and the Netherlands, whose fleets are heavily engaged in such trade. Less than 20% of Japan's shipping revenues are derived from cross-trading, compared with about 90% in Norway.

19. Although the world tanker market is severely depressed, Japan's tanker fleet has not suffered to the same extent as tanker operations in other countries. Most of the tonnage owned by Japanese companies is on long-term charter -- 3 to 10 years – to Japanese or major foreign oil companies, assuring continued operations. In contrast, several Greek and Norwegian owners have been hard hit because of extensive dependence on the volatile spot (single-voyage) market. This market has been thrown into chaos by the drop in world petroleum trade. Nonetheless, in the first nine months of 1975, about 15% of Japan's tanker tonnage took Persian Gulf single voyage charters, often at less than break-even rates. This development is largely attributable to the requirement that crews of Japanese ships be paid in full, even if their ships are laid up.

20. Japan's shipping industry did well in 1974 despite its declining competitiveness and a general slowing in world trade. Japanese trade reached record levels in 1974, enabling the Big Six to earn record profits of $261 million. Nonetheless, the retrenchment in world trade was felt. Profits of the Big Six for the last half of the fiscal year ending 31 March 1975 were down 45% from the first-half level. Moreover, the volume of Japan's seaborne imports -- which were nearly 10 times as great as export volume last year – fell sharply in the three quarters after September 1974 as petroleum imports declined. Consequently, the volume of seaborne trade for the fiscal year ending 31 March 1975 was 12 million tons less than the calendar year 1974 total. All signs point to a further decline in Japan's seaborne trade.

21. Meanwhile, Japan's tanker fleet continues to expand. Nearly 4 million DWT of tankers are on order for the Japanese fleet through 1978, with nearly 1 million DWT scheduled for delivery in the last half of 1975. Most of the 1975 deliveries are unchartered. In the past, new ships without charters were negligible, as Tokyo required shipowners to obtain charters before providing construction subsidies. The government did not press this requirement last year, however, raising the specter of increasing overcapacity and losses.

Counterrecession Measures

22. To check the rapid growth of surplus shipping, the Ministry of Transport in July drastically tightened its restrictions on the construction of Japanese-flag

ships. Because of reduced raw material requirements and the prospect of increased dependence on nearby sources, such as oil from China, Japan's shipowners have reduced earlier estimates of the size of Japan's fleet in 1980 from 80 million DWT to around 73 million DWT.

23. Japan's powerful associations of shipowners, shipbuilders and seamen[4] have been conferring among themselves and with government representatives to work out self-help measures as well as proposals for government aid. These negotiations have produced some signs of softening in the requirement of the seamen's unions that a full crew be paid for laid-up Japanese-flag ships.

24. Counterrecession measures that ship operators are pressing for in the FY 1976 national budget include the extension of tax relief legislation due to expire in March 1976, the establishment of profit and depreciation funds to smooth out fluctuations in ship earnings, and steps to reduce surplus tonnage. Although the government has been decreasing its support of shipping as the industry prospered, it may continue recent aid programs and introduce new ones unless economic recovery accelerates.

25. The Ministry of Transport, for example, recently announced its intention to begin buying up surplus Japanese ships in the near-seas trades next April with the beginning of the new fiscal year. An estimated 60 ships of about 2 million DWT would be purchased and sold abroad over the next 3 years. This move results from the JSA's conclusion that Japanese operators have no alternative but to withdraw completely from the transport of logs from South Asian ports. Resale of these ships to Indonesia and other Southeast Asian nations wishing to expand their fleets will be sought through subsidized credits.

26. To alleviate a growing surplus of Japanese-flag tankers, the JSA has also proposed that an unspecified number be used temporarily to supplement a planned expansion of petroleum stockpile capacity. The reserve plan – overseen by the Ministry of International Trade and Industry (MITI) -- calls for the expansion of national petroleum stocks from a reserve for 60 days to a 90-day supply by 1980. The planned increment in reserves, 222 million barrels, is equivalent to nearly 28 million DWT of tanker capacity. Although most of the planned increase will be in land-based storage, several considerations favor the use of some surplus Japanese tankers for static storage:

4. The Japanese Shipowners Association (JSA), the Ship Builder's Association of Japan (SAJ), and the All Japan Seamen's Union (AJSU).

- The government is already committed to aid the expansion of petroleum storage capacity.

- MITI may attach some urgency to prompt implementation of the plan, as a hedge against either further petroleum price increases or the possibility of another disruption of OPEC supplies.

- For operators of Japanese-flag ships, the cost differential between lay-up and continued operation is minimal because of their obligation to pay full crew costs even when a ship is laid up.

27. On the major problem of the high cost of Japanese crews, idealism is yielding to pragmatism. Ministry of Transport officials now are unofficially encouraging some shipping companies to employ chartered ships under flags of convenience.

Outlook

28. Japan's shipping industry faces a difficult period of readjustment. Demands for large wage increases by the powerful seamen's union and encroachment by foreign fleets will continue to be major problems. Ship-owning firms that have committed themselves heavily to long-term charters at fixed rates and tanker operators whose charters expire during the current recession will be particularly hard pressed. But their diversified operations and large financial reserves are likely to see the Big Six through. Optimists foresee full recovery in 2 to 3 years; pessimists suggest 5 years in the absence of unexpected, massive government support.

29. We believe that Japan's position as the world's leading seaborne trading nation will be maintained. Some industry sources foresee further reorganizations, leading to a greater concentration of strength under the Big Six. Tokyo bankers believe that Japanese shipping will weather the recession better than their major European competitors and emerge in a stronger international position.